

November 4, 2002

California Energy Commission
Docket No. 02-IEP-01
Docket Unit, MS-4
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814-5512

Dear Commissioners:

Re: Sempra Energy Utilities' Comments on the 2003 Integrated Energy Policy Report (IEP)

The Sempra Energy Utilities (SEU), comprised of Southern California Gas Company (SoCalGas) and San Diego Gas and Electric Company (SDG&E), appreciate the opportunity to comment on the California Energy Commission's (CEC) proposal concerning the scope of the ***Integrated Energy Policy Report***. The issues identified in the proposal are comprehensive and well thought out. Complete cooperation between all parties and regulatory bodies will be required for these complex issues to be addressed in a timely manner with a fair balance of business, environmental, and consumer concerns. The SEU are ready to actively participate and contribute our views and ideas to assure that California adopts cost-effective energy investment policies while protecting the environment and promoting consumer choice for energy-related products and services in the competitive marketplace.

Because of past energy flow disruptions, it is essential that California adopt energy policies that encourage firms to invest in cost-effective infrastructure and conservation measures. California's energy-related industries can be positioned to compete effectively in the global marketplace by assuring that adequate energy products and services are made available at competitive prices. Although the transition from a totally regulated to a market-based energy marketplace has been difficult, this transition should be continued, if California is to be a viable worldwide competitor in the production of goods and services.

Regulatory Approval Process

The last energy crisis demonstrated the need for a streamlined regulatory approval process to assure that adequate energy supplies and transportation infrastructure are made available in a timely manner. Investors should be assured of a deliberate, predictable, and timely permitting process that fairly balances the need for energy-related investments and environmental concerns. Specifically, this process should provide detailed regulatory guidelines on how to get gas pipelines, power plants, or transmission lines built. It should identify the agencies involved, the time required to obtain approval, and the permitting costs. Suggestions from investors to streamline the regulatory process should be solicited and incorporated into the report. A more predictable regulatory process will lower the regulatory risk to investors and thereby reduce the costs of investment, ultimately reducing costs to consumers for energy-related products and services.

Market-Based Incentives to Invest and to Conserve

To solve the state's energy problems, the SEU recommends that California adopt cost-effective, market-based incentives to invest in energy-related plant and equipment, and energy efficiency measures, rather than reintroducing command and control regulations and mandates. The CEC assessment should explore changes in the regulatory process that enhance the use of market incentives while still protecting consumers from unwarranted cost increases.

Any study of emerging trends in Research, Design, and Development (RD&D), and the resulting recommendations should be carefully screened to assure that the technologies involved are, or are expected to become cost-effective and are nearly ready for widespread commercialization. In the past, significant amounts of funding was provided for public purpose RD&D projects that simply didn't meet expectations. Before additional dollars are authorized for future research, the results of projects funded in the recent past and lessons-learned should be closely evaluated. The questions to be answered are, "What has been learned?" and "What other steps could be taken on a statewide level to reduce the cost of new and emerging technologies and increase market acceptance?" Similarly, if the goal is to procure energy and demand savings as a 'resource,' priority should be given to funding the most cost-effective energy efficiency and demand reduction programs to deliver the highest return per dollar of investment.

Energy Demand and Supply Planning

Given the rapidly changing energy markets and fluctuations in West Coast energy prices, greater emphasis should be given to the immediate future and the next 3-5 years, as opposed to developing longer-term, 10-year forecasts, that will quickly become obsolete. Priority should also be given to supporting in-state infrastructure development (generation, distribution, transmission, and storage facilities), Demand Side Management (DSM), renewables, and distributed generation.

The SEU recommend that the CEC work closely with Cal-ISO, investor-owned utilities (IOUs), energy consultants, and other stakeholders to develop scenarios that capture a range of possible energy supply and demand outcomes. A collaborative process that takes into account and uses the data from the *California Gas Report* forecasts developed by the IOUs and the CPUC would be more productive than another duplicative or an adversarial process. This is especially important now that the IOUs have been ordered back into the long-term electricity procurement business by the CPUC.

In this regard, clear guidance and regulatory direction should be given to IOUs with respect to the appropriate mix of longer-term firm energy supply contracts, at predictable prices, together with market-based, short-term supplies of gas and electricity. Prudent planning requires a mix of short-term, market-based and longer-term, fixed price supplies to protect consumers from extreme price spikes and supply shortages. Prudent planning also requires that adequate reserves of electricity generation capacity, interstate gas pipeline and electricity transmission and gas storage capacities are available to reduce the detrimental effects of energy supply or capacity shortages on consumers.

Finally, prudent planning requires consideration of the future retail market structure that will exist in California: It would be inappropriate to enter into long-term obligations on behalf of customers who may, in the future, select an alternative provider.

Furthermore, energy consumers should be made more aware of the costs of energy consumption through increased investment in time-of-use meters and development of market-based incentives to shed load during times of peak demand. The SEU believe market-based incentives to invest and conserve are the most effective ways to solve the state's energy problems.

Specific Comments:

Before the commission begins to develop its statewide electricity and natural gas demand forecast and supply plan, it should hold at least one workshop to educate market participants about the similarities and differences in process between the old Electricity Report and the new Integrated Energy Policy Report. All market participants, especially those who have never developed a demand forecast or resource plan to be submitted to the CEC, need to know what is expected of them and what their role will be in helping the commission prepare the new plan.

Also, the SEU recommend that the CEC present a preliminary project plan. At a minimum, this plan would help parties understand their role, the detailed timeline and milestones, the critical path activities, and the windows for utility involvement for (1) providing input; (2) responding to data requests; and (3) reviewing and commenting on preliminary results.

The SEU also recommend that clarifications of certain issues and additions be made in the following areas of the final report:

Scope: Include Mexico within the context of supply and infrastructure. This should include potential future Baja California liquefied natural gas projects; its potential as a natural gas supply source; and the infrastructure needed to transmit electricity generated in Mexico to California.

Additionally, the final report should address the issue of regional transmission organizations (RTOs), the Federal Energy Regulatory Commission (FERC) Standard Market Design (SMD) proposal, and the Cal-ISO market design. The report should address regulatory approaches associated with these issues and work with industry to implement a workable SMD that meets both Federal and state requirements. The report should include an assessment of the potential impact on the overall electricity market based on different proposed design alternatives.

Trends and Outlooks: When the proposal states that the CEC will develop baseline and reasonable alternative electricity and natural gas demand forecasts for 2003-2013, does that mean there will be separate forecasts for PG&E, SDG&E, SCE, SoCalGas, Scalers, and interstate pipelines? The SEU recommend the development of such demand forecasts in association with individual energy companies and IOUs.

The report should address the issue of rate structures and the potential for improving demand responsiveness by customers through the use of real-time pricing and time-of-use metering and billing.

The CEC scope proposal talks about the effect on demand from “new rate structures.” The SEU suggest that this reference be more clearly defined early on if the demand forecasters are to do scenarios using different rate designs. The report should answer the following questions: “What is the effect on overall economic activity in the state and the electricity and gas sectors? And, “What are the likely demand reductions under different rate structures including the resulting cost savings (\$/MW) of the reductions?”

More specifically, the study should carefully examine the years 1999-2001 to determine the overall impacts of price elasticity on consumption and peak demand, before, during, and after the energy crisis. It should evaluate the degree to which voluntary conservation in 2001 is continuing to reduce demand, and whether significant ‘take-back’ has occurred since that time. It would also be valuable to determine which tariff and rate structures (inverted, seasonal, time-of-use, etc.) have been most effective in encouraging various customer classes to use available energy resources more cost-effectively.

The SEU also suggest that specifics on the data, assumptions, and forecasting methods the CEC plans to use (e.g., end use vs. econometric models) be provided. PG&E's comments recommend the use of “identical models and data” for the electric demand and transmission simulations. It would be helpful to know whether the CEC will be doing the same on the gas side.

DSM and Energy Efficiency: The CEC should also conduct a study to identify the years between 1991 and 2002 in which the energy efficiency programs were managed by the IOUs and produced the highest measured energy savings. The study should assess the regulatory climate in place in the years when those savings were produced, including shareholder incentives and disincentives provided to the IOUs for producing measured savings each year. The CEC should then recreate the statewide regulatory framework, including the IOU incentives and disincentives, based on its analysis of programs, and evaluate this framework as a potential policy proposal going forward.

DSM and energy efficiency should remain a cornerstone of California’s overall energy resource portfolio, whether or not there is a strong economic recovery with low gas prices in 2003 and beyond. Steps should be taken to assure that there is coordination with similar efforts at the CPUC to include DSM options in the state’s energy resource mix. The CEC should work with the legislature and the CPUC to establish voluntary statewide goals and utility-specific targets for DSM and energy efficiency similar to those established by the commission for renewable resources. To meet these goals, IOUs should be authorized by the CPUC to achieve such targets and utility-specific goals. All investments in DSM and energy efficiency should be cost-effective and meet the investment societal test to assure that the resulting energy savings cover the investment costs. Utilities should be directly involved in this process and provided funding to conduct an assessment of remaining cost-effective energy savings potential in their respective service territories.

In concert with this effort, it would be helpful for the report to address and attempt to answer the following questions: What is the financial impact on California if mitigation of greenhouse gases is required by California industry? Can air quality regulations be better integrated with energy efficiency such that overall air and efficiency improvements are made?

The Effect of Weather on Electricity and Natural Gas Demand? The SEU recommend that the meaning of weather be clearly defined. Is it “Heating Degree Days” and “Cooling Degree Days” only, or does it include the impact of hydro conditions on natural gas demand for electricity generation?

Report on Emerging Trends in the Renewable Energy Industry: Include a discussion of the operational compatibility of renewable energy sources with other traditional sources of electricity supply, i.e., policies to reconcile potential reliability or efficiency issues as California increases its reliance on renewable energy supplies.

Transportation Fuels and Infrastructure Trends and Outlook: The proposal states that it will develop 20-year baseline forecasts of transportation fuel supply and demand for California. The SEU would like to

see the forecasts of fuel supply and demand categorized by area, i.e., Northern, Central, and Southern California. The forecasts should also include the intra area transportation forecasts.

Infrastructure and Constraint Implications: The progress of new infrastructure projects in California and throughout the West should also include an assessment of the cost of economic and regulatory uncertainty, particularly in California, on new electric generation projects.

Adequacy, Reliability, and Risk: The SEU are concerned with the consistency, basis and agreement of the CEC forecasts with industry forecasts used for these assessments. In particular, the IOUs, under the direction of the CPUC, already develop supply, demand and price forecasts as part of the ***California Gas Report*** process, the Biennial Cost Allocation Process and General Rate Case filings. These forecasts are litigated and adopted by the CPUC. Extensive research and analysis is undertaken to develop these forecasts. This includes planning criteria for reliability and risk minimization to assure adequate supplies and capacities are available to meet core customers' peak day and cold year demands for gas and uninterrupted core electricity supplies.

The SEU recommend that the adopted planning criteria and CPUC-approved supply, demand, and price forecasts be used by the CEC in developing statewide energy system requirements. This will avoid duplication of time and effort and avoid countervailing planning criteria being developed by different state regulatory bodies. It is essential that agreement be reached on the use of CPUC-approved reliability criteria, such as, the 1-in-35 year peak day demand requirement for core gas customers and the 1-in-10 year demand requirement for non-core gas customers in the SoCalGas and SDG&E service territories.

Finally, caution should be exercised in relying too heavily on, or failing to properly design *voluntary* demand-response programs to meet reserve margins or reduce peak demand. Past experience has shown that significant monetary impacts must be realized before such programs are effective.

Security: The SEU believe that there should be some discussion concerning protection of California's energy infrastructure from terrorist threats or attacks. The impact that an attack might have on the reliability of the gas and electricity systems must be examined and incorporated into any final report.

Conclusion

The SEU are prepared to actively participate in a cooperative effort to develop energy-related policies that promote the cost-effective development of California's energy infrastructure, investment in energy conservation measures, environmental protection, and consumer choice.

Sincerely,

Bernie Orozco

Director, State Governmental Affairs